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In the Supreme Court of the United States

No. 72-73-140

AGRASHELL, INC.,
Petitioner,

vs.

HAMMONS PRODUCTS COMPANY,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

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In the Supreme Court of the United States

No. 72-_____

AGRASHELL, INC.,
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vs.

HAMMONS PRODUCTS COMPANY,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

Petitioner Agrashell, Inc. ("Agrashell") prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Eighth Circuit in the above-entitled case so far as it affirmed that part of a judgment of the District Court awarding respondent Hammons Products Company ("Hammons") treble damages in the amount of $125,250 for "loss of profits" resulting from violations of Section 1 of the Sherman Act (15 U.S.C. §1).

OPINIONS BELOW

The opinion of the Court of Appeals, reported at 476 F.2d ..... and 177 USPQ 401 (1973), is reproduced as Appendix A *infra*.

Opinions of the Court of Appeals and the same District Court after earlier trial of this case to the court on the issues of validity, infringement and enforceability of petitioner's patent are reported, respectively, at 413 F.2d 89 (8th Cir. 1969, Opinion by Judge Blackmun) and 279 F. Supp. 522 (W.D. Mo. 1967).[1]

JURISDICTION

This petition concerns a counterclaim based on the Anti-Trust laws of the United States, 15 U.S.C. §1, et seq. The courts below had jurisdiction by reason of 28 U.S.C. §1337.

The jurisdiction of this Court is invoked under 28 U.S.C. §1254 (1).

This petition is timely filed under 28 U.S.C. §2101 (c). The judgment of the Court of Appeals was entered on March 30, 1972 and a timely filed petition for rehearing was denied on May 1, 1973.

QUESTIONS PRESENTED

1. Can the fact of damage requirement for a treble damage claim which alleged loss of profits be made where the only evidence that claimant had been injured in its business or property was an economist's damage theory that was negated as to its major assumptions and was also found to have "many practical defects" constituting

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1. In a still earlier phase, *Agrashell, Inc.* v. *Hammons Products Co.*, 248 F. Supp. 258 (W.D. Mo. 1965), aff'd 352 F.2d 443 (8th Cir. 1965), Agrashell as exclusive licensee was held not entitled to sue for infringement in its own name without joining the nominal patent owner as a party. This procedural defect was cured before the present action was brought.

"serious failings" of proof, particularly where the claimant demonstrated neither significant efforts nor a capacity to secure any of the business involved in the contracts held to be in restraint of trade?

2. Does a contract with a commission sales agent merely for the distribution of a product warehoused and priced by the manufacturer—the manufacturer's only contract of its kind, and terminable annually on 60 days notice by either party—become in violation of Section 1 of the Sherman Act, for having "extended the life of the patent", upon continuing in effect after the expiration of a patent for the product concerned?

STATUTORY PROVISIONS

Sherman Act, Sec. 1, 15 U.S.C. §1:

> Every contract, . . . in restraint of trade or commerce among the several States, . . . is hereby declared to be illegal.

Clayton Act, Sec. 4, 15 U.S.C. §15:

> . . . any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor . . . and shall recover threefold the damages by him sustained . . .

STATEMENT OF THE CASE

A. Proceedings in the Courts below

This action was commenced in 1965 by petitioner Agrashell for damages for past infringement of an expired patent (Re. 23,422) which Agrashell had acquired by assignment. The patent was granted in 1947 for a discov-

ery by Frank R. Perry of a method of cleaning metal articles by blasting against them ground nutshells of certain hardness and sizes and for the specially sized ground hard nutshell material.

Upon answering the complaint in 1966, Hammons counterclaimed for antitrust damages and for a declaratory judgment of invalidity, non-infringement and unenforceability of the patent, demanding attorneys fees [App. I, 26-29]. The alleged antitrust violation involved, *inter alia*, charges that Agrashell had an "exclusive purchase and price fixing contract" with American Wheelabrator and Equipment Corporation ("Wheelabrator") and also one with Pangborn Corporation ("Pangborn") [App. I, 43-45, 56-57].

Neither party demanded a jury.

The action proceeded in 1967 to trial to the Court on all issues. During that trial, Hammons presented evidence and rested on the validity, infringement and misuse issues, claiming attorneys fees on the basis of them. Both the Wheelabrator contract and the Pangborn contract, whose construction and effect form the basic operative facts of this petition, were placed in evidence. When Hammons then announced readiness to proceed on the antitrust damage claim, the Court ordered the trial continued to enable discovery by Agrashell on new damage theories that had been asserted by Hammons just before the trial [App. III, 1050, 1054-1057].

In post-trial briefs and proposed findings, Hammons urged the Court to find patent misuse in the Pangborn and Wheelabrator contracts because they "extend[ed] the patent monopoly beyond its expiration date", and accordingly to award attorneys fees [App. I, 75, 85-91, 95].

By a memorandum decision and judgment entered in November, 1967, the District Court dismissed the claim for patent infringement and denied the claim for attorneys fees [App. I, 103]. No misuse was found. *Agrashell* v. *Hammons,* 279 F. Supp. 522 (1967). Appeals were taken by both parties, and the judgment was affirmed. *Agrashell* v. *Hammons,* 413 F.2d 89 (1969).

Eighteen months after the service of the answer presenting the counterclaims and six months after the District Court's 1967 judgment, Hammons moved for a jury trial of the antitrust counterclaim—upon no factual showing other than it had changed from patent counsel to antitrust counsel. The motion was granted over strenuous objections based on the prior waiver and the prior trial of the patent misuse issues [App. I, 104, 111-113].

Trial of the counterclaim was to a jury. In its course, the Court stated inadvertently before the jury that "The patent [Agrashell's Perry patent] was determined legally by the Court of last resort as an *illegal* patent" [App. II, 290 T].

In instructing the jury, the trial Court referred to allegations that Agrashell controlled the prices of its soft grit abrasive materials, and stated:

> "Now, there was not evidence that if that happened, that that damaged Hammons in any way because there wasn't any evidence that they sold it below cost or to run Hammons out of the market." [989 T].

The jury returned a verdict of $162,374.21 for patent litigation expenses and $41,750.00 for loss of profits, which the district court increased to $775,733.76 by trebling those amounts and adding $150,000.00 for attorneys' fees and $13,361.31 for costs.

The Court of Appeals reversed the judgment for patent litigation expenses, ruling that Hammons "did not make a submissible case under Section 2 of the [Sherman] Act" [Opinion, p. 15]. It left standing the judgment for "loss of profits".

All of Hammons' various allegations of illegal conduct by Agrashell were held by the Court of Appeals to be untenable as a basis for the jury verdict, excepting only the contracts with Wheelabrator and Pangborn.

B. The Operative Facts

1. Agrashell's business

Agrashell is a small Los Angeles company which in the 1930's pioneered the development of commercial products from waste nut shells.

In 1945 Agrashell entered into the production of hard nutshell blast cleaning abrasives from apricot pit shells and black walnut shells, for military use according to the Perry invention [778-779 T]. This material, trademarked as its Shelblast product, became one of a number of materials referred to as "soft grit abrasive" (SGA). In 1947, upon learning that the Perry patent was about to be issued, Agrashell obtained an exclusive license under the patent [800 T].

In order to develop the industrial market, which is located principally in Eastern and Midwest industrial areas, Agrashell shipped the product in carloads to warehouses located near the prospective consumers, keeping stocks there at its own risk and expense, and sought agents who, for sales commissions, would develop sales and give prompt service to customers [781-785 T].

2. The Wheelabrator contract

In 1950, Wheelabrator became a Shelblast selling agent under a contract which it drafted (856 T), reproduced as Appendix B *infra*. By its terms, Agrashell appointed Wheelabrator as a *del credere* factor to sell and service its Shelblast products for a percentage commission on orders it transmitted (¶¶ 1, 7). Agrashell agreed to fill the orders promptly, failing which Wheelabrator could obtain similar material elsewhere (¶ 5). Wheelabrator would quote the prices announced by Agrashell (¶ 10).

Either party could terminate the agreement at any anniversary date by sixty days notice (¶ 11).

The Wheelabrator contract contains no mention of any patent or any patent license other than to hold the agent harmless from patent infringement (¶ 13).

3. The Pangborn contract

In 1962, a suit by Agrashell against Pangborn for infringement of the Perry patent was settled by Pangborn's acknowledgement of the validity of the patent and its request for an agency to supply Agrashell's patented nutshell SGA products. This resulted in the Pangborn contract, made March 29, 1962 for a term of five years [737-740 T, 811-815 T]. Its provisions differed from those of the Wheelabrator contract principally in that (a) Pangborn did not agree to quote prices announced by Agrashell; (b) Pangborn agreed not to deal in nutshell SGA other than Agrashell's until June 10, 1964 (the patent expiration date), after which it could procure other nutshell SGA on more favorable terms if Agrashell should fail to meet them.

4. Hammons and other SGA manufacturers

Hammons in 1957-1958 entered the market for the Perry patent material by producing it in and selling direct from a black walnut shelling plant at Stockton, Missouri. Hammons' SGA is made entirely from black walnut shells. Hammons soon had captured 100% of the large Detroit area automotive market for the material.

During the alleged damage period at least ten companies other than Agrashell and Hammons manufactured SGA, and various other companies distributed the material [Opinion, p. 4].

Agrashell and Hammons are nearly identical in size. Hammons' business prospered and grew during the alleged damage period.

5. Proof as to the contracts and damage

The Wheelabrator contract and the Pangborn contract were made twelve years apart. Neither Wheelabrator nor Pangborn was a consumer of SGA, other than for demonstration purposes; both were manufacturers of blast cleaning equipment who simply made the abrasive available to customers as a service to them.

Agrashell through the contracts and the services of Wheelabrator and Pangborn was able to supply ultimate customers who bought in small quantities; their orders could be delivered promptly in a variety of sizes from Agrashell's regional warehouses [Opinion, pp. 22, 24].

Hammons, in contrast, sold direct, or to jobbers for resale from warehouses owned by the jobbers, or by manufacturers' representatives with orders shipped direct from Hammons' plant. Hammons did not maintain regional warehouse facilities in order to service small orders, and did not actively solicit them [Opinion, pp. 22, 24].

Hammons made *no* attempt during the alleged damage period to secure any business from either Wheelabrator or Pangborn. Its only contacts with Wheelabrator were in response to some routine sales literature received from Wheelabrator in 1957 and by a small sale of SGA to Wheelabrator in 1958. Hammons' representative visited Pangborn in 1958 and 1962—*before* Pangborn was an Agrashell agent—but not afterward [Opinion, p. 23].

And, as the Court of Appeals stated:

> "*More importantly, there was no evidence tending to show why Hammons could not sell direct or through agents to the ultimate consumers who were purchasing from Agrashell through* [*Wheelabrator and Pangborn*]" [Opinion, p. 23].

The jury award for "loss of profits" was based *solely* upon a theory presented in the testimony of an economist concerning damages allegedly sustained by Hammons [Opinion, pp. 14-15]. This theory was based on *assumptions* regarding the effect, as "barriers" to trade, of a number of circumstances, and did not purport to conclude that under any hypothetical state of facts Hammons would or could have secured the business Agrashell did through Wheelabrator, Pangborn, or any other particular agent.

The economist's theory assumed that because the sales by Hammons and Agrashell of different grades of SGA to a single large purchaser's plant over a seven-year period had been in a tonnage ratio of 60:40 (in Hammons' favor), Hammons but for four assumed "illegal barriers" would have secured 60 percent of the total SGA business Agrashell conducted through its principal agents, enumerated to include Wheelabrator, Pangborn, and twelve others unrelated to the contracts here in question. *No* consideration was given to the differences of customers,

products, service, quantities and delivery needs, nor to the fact that at least ten other manufacturers and various distributors were competing in the SGA market.

Most importantly, Hammons adduced *no* proof that it even attempted during the damage period to secure any of the business done by Agrashell through Wheelabrator or Pangborn, or that its own business in SGA was *in fact* injured *in any way* by the existence of either the Wheelabrator contract or the Pangborn contract.

REASONS FOR GRANTING THE WRIT

I. As to Question 1

The decision below dangerously vitiates the "fact of damage" requisite of treble damage claims under Section 4 of the Clayton Act, by sustaining a jury's award of "lost profits" based solely on an economist's assumptions which the Court found highly defective.

The primary issue before the Court of Appeals as stated in its opinion [Appendix A, p. 15] was

> "Whether Hammons failed to establish that Agrashell had violated the Sherman Act and by so doing proximately injured Hammons."

The opinion of the Court narrowed that primary issue by ruling that the only violations which the jury could have correctly found consisted of violations of Section 1 by the Wheelabrator contract and the Pangborn contract. These violations were held to have arisen from the continuance of the Wheelabrator contract after the Perry patent expired and from Agrashell's first option to supply Pangborn's requirements of nutshell SGA, which existed under

the Pangborn contract for 2 years and 10 months after the patent expired.

A basic question then remained under Section 4 of the Clayton Act as to whether *any* evidence warranted the jury's finding that Hammons' business was caused losses of profits by reason of either or both of the contracts. Was there sufficient evidence that the existence of the Wheelabrator contract had injured Hammons' business? Was there evidence that its business was injured by reason of the 3-year supply option provided for Agrashell by the Pangborn contract?

Upon the opinion of the Court of Appeals, it is apparent that, as a *matter of fact,* there was *no* evidence that Hammons was actually caused *any* loss of business.

During the alleged damage period, Hammons did not even solicit business from Pangborn or Wheelabrator [Opinion, p. 23]. There was no evidence that it actively solicited [or that it even knew of] the ultimate consumers who were purchasing from Agrashell through Pangborn or Wheelabrator [Opinion, pp. 23-24]. In fact, its sales efforts were "rather ill-suited to acquiring the business" of Pangborn or Wheelabrator, for Hammons had only one salesman; it sold its SGA only by direct shipments from its black walnut shelling plant in Missouri; and Hammons did not, while Agrashell did, maintain regional warehouses in order to provide prompt delivery of small quantities of various sizes and types of products on orders serviced by agents [Opinion, pp. 22-24].

There was a *total lack* of *factual* evidence that Hammons suffered any injury by reason of the contracts held forbidden. Quite to the contrary, Hammons prospered in its own way of doing business, and it demonstrated neither the intent nor the capacity to even attempt to serve the

purchasers whose needs were served by Agrashell's sales from regionally warehoused stocks with the aid of Wheelabrator and Pangborn as provided by their contracts.

Section 4 of the Clayton Act authorizes a *recovery* which is available only to a person "who shall be *injured* in his business or property *by reason of* anything forbidden in the antitrust laws". Proof of the *fact* of *at least some* profits having actually been lost because of a violation found is manifestly prerequisite to a lawful recovery of threefold an amount claimed as lost profits.

This Court has consistently held to the intent of the statute:

> "Under §4, plaintiff must show not only that the defendant violated the antitrust laws but that his conduct *caused the damages* alleged in the complaint." *Perma Mufflers* v. *Int'l. Parts Corp.*, 392 U.S. 134, 143 (1967) (Mr. Justice White, concurring).
>
> ". . . the fact of damage under §4 . . . is . . . that the illegality is shown to be a *material cause* of the injury . . ." *Zenith Corp.* v. *Hazeltine*, 395 U.S. 100, 114 n. 9 (1968).

In the *Zenith* opinion, this Court held that Zenith had not met the burden of proof of the fact of damage as to certain markets and expressed the criteria of such proof as follows:

> ". . . the issue is whether . . . Zenith intended to enter [the allegedly foreclosed market], had the capacity to do so, and was prevented from entering by [the unlawful conduct] . . . If Zenith's failure to enter the English market was attributable to its lack of desire, its limited production capabilities, or to other factors independent of HRI's unlawful conduct, Zenith

would not have met its burden under §4." (395 U.S. at 126-127).

The court below has not applied these or any equivalent criteria to the factual situation carefully set out in its opinion. Had it applied them, the award for "lost profits" could not have survived its analysis of the evidence. Thus, Hammons' failure to seek business from or through Wheelabrator or Pangborn, or even from the customers they served, demonstrated lack of desire and intent to secure the portions of the SGA market they served. Hammons' way of doing business only by direct shipment from its plant [also, the fact that it used only one salesman] demonstrated lack of capability to serve the customers they served. Hammons' failure to solicit the sources of the business Agrashell had and its expert's inability to explain why it had not attempted to secure it [Opinion, p. 24, n. 8] further demonstrated the total absence of any factual basis for concluding that Hammons was prevented by the Pangborn contract or by the Wheelabrator contract from securing any part of the Agrashell sales it claimed "it *should* have had" [Opinion, p. 19].

Instead of adducing any factual proof that its business was injured by the contracts, Hammons resorted to an economist's theory as its *only* evidence of the alleged damage. Its resort to this entirely theoretical basis was itself a significant indication that there was no evidence of any actual damage.

The economist's theory provided no evidence that Hammons was in *fact* caused any loss of profits by reason of the Pangborn contract or by reason of the Wheelabrator contract. It showed no business relationship at all, either actual or attempted, between Hammons and Pangborn, or Hammons and Wheelabrator, or Hammons

and any purchaser of Agrashell's SGA supplied through Pangborn or Wheelabrator.

The Court of Appeals very carefully analyzed some of the premises and assumptions of the economist's theory, pointing out that, although unique, it had "many practical defects" which constituted "serious failings" and that important assumptions in it were "highly suspect", unreliable, and "conclusively negated" [Opinion, pp. 21-24].

The Court, however, after pointing out how defective and unreliable the damage theory really was, proceeded nevertheless to sustain the jury's award of lost profits with this seriously fallacious theory as its *only* foundation.

The Court failed to observe that Hammons' sales of a special grade of SGA direct to a single large purchaser's plant in Columbus, Ohio [i.e., the Hammons part of the economist's assumed 60:40 sales ratio], where that purchaser had had no business relation with either Pangborn or Wheelabrator, could not by any manner of reasoning be considered as evidence of Hammons having been caused any loss of profits or sales by reason of the Pangborn contract or by reason of the Wheelabrator contract.

Also, the Court overlooked that under the trial court's instruction that there was no evidence that Agrashell's alleged control of prices damaged Hammons in any way (989 T), and in light of its own holding [Opinion, pp. 23-24] that the higher prices Agrashell's ultimate consumers were paying should have made it easier for Hammons to compete, the pricing provision of the Wheelabrator contract, the *only* offense found in it, could not have damaged Hammons. This being so, the "lost profits" award could not stand on any theory, for the portion of it attributed to the Pangborn contract by the economist's theory [DX 595, 596] was at most $16,185 and thus only a fraction of the verdict of $41,750 for loss of profits.

The Court sustained the "lost profits" award upon the economist's theory, although having shown it to be thoroughly misfounded and incredible; by stating that "our critique . . . must be tempered . . . by the Supreme Court's statements relating to the proper function of an appellate court when reviewing damage evidence." Then the Court [Opinion, p. 25] quoted a passage from *Zenith*, 395 U.S. at 114 n. 9, and stated that this Court had "consistently reminded critics of damage formulations that an antitrust violator may not properly complain about damage proof vagaries when such ambiguity results from the illegal act itself", citing two cases.[2]

The cited reminders of this Court, however, were directed to vagaries of proof of *amount* of damage. Even if the unique, palpably misfounded economist's theory employed in this case might be tolerated judicially as a basis for calculating an amount of damages, once the *fact* of damage had been proved, there is no warrant in either Section 4 or any decision of this Court, or in any other found authority, for permitting such a plainly fallacious theory to be utilized in place of proof that the treble damage claimant did *in fact* suffer *at least some* injury proximately caused by a related antitrust violation. As this Court stated in *Story Parchment Co.* v. *Paterson Parchment Paper Co.*, 282 U.S. 555, 562 (1931):

> "* * * there is a clear distinction between the measure of proof necessary to establish the fact that petitioner had sustained some damage, and the measure of proof necessary to enable the jury to fix the amount. The rule which precludes the recovery of uncertain damages applies to such as are not the cer-

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2. *Bigelow* v. *RKO Radio Pictures, Inc.*, 327 U.S. 251, 265 (1946); *Eastman Kodak Co.* v. *Southern Photo Materials Co.*, 273 U.S. 359, 379 (1927).

tain result of the wrong, not to those damages which are definitely attributable to the wrong and only uncertain in respect of their amount."

A similarly incredible economist's theory was advanced and *totally rejected* as the basis for a treble damage claim in *Herman Schwabe, Inc.* v. *United Shoe Machine Corp,* 297 F.2d 906, 910 (2d Cir.), cert. denied, 369 U.S. 865 (1962), a case mentioned on page 19 of the opinion below. In *Schwabe,* Judge Friendly's opinion recited principles for judging what evidence is worthy of consideration by a jury, and stated that "the leap required to derive any rational conclusion from the expert's data was too great to allow a jury to take. Many decisions have rejected evidence of injury and damage comparable in weight with that submitted here [citing cases]." (297 F.2d at 912).

The decision below is contrary to the plain terms of §4; it misapplies to the issue of fact of damage principles stated by this Court in reference to amount of damage; it overlooks the criteria laid down by this Court for proof of the *fact* of damage; it is clearly inconsistent with the rejection of the same kind of damage theory by the Court of Appeals for the Second Circuit in the *Schwabe* case.

Both courts below accepted a "highly questionable", "conclusively negated" economist's theory which has "serious failings" as the sole evidentiary basis for a treble damage award. This dangerously vitiates the "*fact* of damage" requisite of treble damage claims under §4. The ingenuity of man in devising adventuresome theories for collecting money as treble damages will have few bounds if the theories acceptable can be based on assumptions so little related as are those of Hammons' expert to even the *existence,* let alone the effects, of operative facts.

The one success of such a theory can only lead to more and more cases of claimants seeking to devise like theories and assert them in treble damage claims. Apart from the unjust burdens and dangers which thus befall the targets of the claims, more such claims can ill be afforded at a time when the courts are already hard pressed to handle the growing volume of well-founded litigation.

II. As to Question 2

A. The decision below departs drastically from established law by outlawing a single agency contract for sales on commission of a manufacturer's product at his announced price. Unless corrected, the ruling will have far-reaching effects upon beneficial selling arrangements that foster trade and customer service.

In holding the Agrashell-Wheelabrator contract to have "extended the life of the patent", and to be "violative of Section 1 of the Sherman Act" and a "contract in restraint of trade", the Court of Appeals departed fundamentally from the common law and from the law long established in this Court.[3]

Never before to our information has a finding of illegal conduct attached to the beneficial practice of promoting the distribution and sale of a manufacturer's unconsigned stock of his product by contracting with a com-

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3. Although another and different contract with the Pangborn Corporation was also held unlawful in part, the award of $41,750 could not be supported on the basis of the Pangborn contract alone. Hammons' claimed loss of profits with regard to Pangborn was only $16,185 (per PX 596; the figure was less under its alternate computation on PX 595); of that, only about $12,600 accrued during the period after the patent expired, when the provision the Court of Appeals ruled unlawful was in effect (June 11, 1964 to March 29, 1967).

mission agent to secure orders for the product at the manufacturer's price.

The Wheelabrator contract (Appendix B) is a simple, pure sales agency agreement. It involves no consignment of goods. It places *no* restriction upon the agent beyond normal provisions for timely payment for shipments he authorizes, due accounting for amounts due less commissions, and quotation of the price announced by Agrashell for intended sales of a product to be shipped directly to buyers from Agrashell's own plant or warehouse facility.

That such a contract is entirely lawful, both at common law and under the Sherman Act, was held by this Court in *United States* v. *General Electric Co.*, 272 U.S. 476 (1926):

> The owner of an article, *patented or otherwise*, is not violating the common law, or the Anti-Trust law, by seeking to dispose of his article directly to the consumer and fixing the price by which his agents transfer the title from him directly to such consumer. 272 U.S. at 488.

This rule was confirmed in *Simpson* v. *Union Oil Co.*, 377 U.S. 13 (1964), where the entire Court declined to overrule *General Electric* although the extensive system of coercive "consignment" contracts involved in *Simpson* was found to be an illegal price-fixing combination. This Court there stated that:

> . . . an owner of an article may send it to a dealer who may in turn undertake to sell it only at a price determined by the owner. *There is nothing illegal about that arrangement.* 377 U.S. at 21.

In this case, the court below cited *Simpson* for comparison with its ruling on the Wheelabrator contract. But

Simpson clearly is inapposite so far as it found an anti-trust violation. The violation found there arose from the facts that (1) Union Oil used a "consignment" scheme "to cover a vast gasoline distribution system, fixing prices through many retail outlets" [there were 1,978 gas station-lessee "agents", i.e., 99% of the lessees, and 1,327 or 63% of the non-lessee "agents", under the contracts] and (2) the prices set by Union were imposed and *maintained by coercion,* as was vividly demonstrated by Simpson's suit which came about because his lease was terminated, driving him out of business, for his having failed to conform to the prices imposed by Union Oil.

There is no parallel in this case to the basis of the decision in *Simpson:* Agrashell made no consignment of its product. The Wheelabrator contract governed dealings with only one distributor, and was its *only* contract requiring orders to be taken at Agrashell's prices. There was no coercion; in fact, the simple agency contract involved here was drafted by Wheelabrator, not Agrashell. There was *no* "price fixing" in the sense of *Simpson,* where the thousands of "consignment" contracts were holdable only by adherence to the gasoline price set by Union Oil and amounted in effect to a market-wide imposition of the manufacturer's price on thousands of potentially competing traders at the same level of distribution.

The result of the ruling of the Court of Appeals is to place every supplier of a product that may be patented, who has an agency agreement for the sale of his product at his price, in jeopardy of a treble damage suit the day after the patent, if any, expires.

B. The ruling has created a new but inexplicable doctrine, and has let it turn a lawful contract into illegal conduct ex post facto, by holding that a mere sales agency agreement could have "extended the life of the patent" and thus constituted a Sherman Act violation upon continuing in effect beyond the expiration of a patent for the product concerned.

The Court of Appeals recognized that under the *General Electric* rule, 272 U.S. at 448, the Wheelabrator contract, considered as a contract of agency, was not in violation of the antitrust law when it was made in 1950, or during the 14 years up to June 10, 1964 when the Perry patent expired [Opinion, pp. 17-18].

Nonetheless, without mention of any authority or any reason for so ruling, the Court said "we think that whatever protection *General Electric* afforded the Wheelabrator contract ended when the patent expired" and, since the contract continued afterward, "the jury could have correctly concluded that the Wheelabrator contract extended the life of the patent . . . and constituted a contract in restraint of trade."

This ruling is in clear conflict with the ruling in *General Electric* that the owner of an article, *patented or otherwise*, is "not violating . . . the Anti-Trust law . . . by . . . fixing the price at which his agents transfer the title from him." It similarly contradicts a like statement in *Simpson*, 377 U.S. at 21, where *unpatented* products were involved.

It is apparent that the Court's rationale has turned the lawful Wheelabrator contract into illegal conduct *ex post facto*. A *mere* sales agency agreement clearly lawful when made in 1950 is held to have become illegal solely because

of having continued in effect after the expiration in 1964 of a patent that claimed the product being distributed under the contract. It has been so condemned, after the fact, although *no* unlawful act was committed either by the making of the contract or by ensuing years of the selling relationship under it. Remarkably, the sole event held to cause illegality, after 14 years of a lawful business relationship, was that a patent expired by operation of the patent law.

Manifestly, a vast reordering of common commericial affairs will be mandated by such a doctrine. The mere possession of a patent right, whether being enforced or not, would become a Sword of Damocles over any producer who had contracted with an agent to further the original sale at his price of products made under the patent.

While the expiration of the Perry patent ended any influence *the patent* might have had on Wheelabrator's reasons for contracting to become a commission agent for Agrashell's SGA, it did not alter or affect the contract in any respect. As far as the contract was concerned, Wheelabrator was free at all times to deal in anyone's SGA at any price. Most importantly, since Wheelabrator was free to end the contract by mere notice at the end of any year after 1950, the expiration of the patent in 1964 could only have *enhanced* Wheelabrator's freedom to choose the product or products it wanted to promote from among the soft grit abrasive products of Agrashell's competitors [there were at least *twelve* companies then engaged in the manufacture of soft grit abrasive].

Both before and after the expiration of the patent, the Wheelabrator contract continued only because of a year to year election by Wheelabrator to continue serving as a selling agent for Agrashell; after the patent expired Wheel-

abrator and the customers it served were totally free to deal in, buy and use the SGA of any of twelve or more different suppliers, at any price they would quote.

It defies all reason to rule that a contract which was lawful during the period when a patent might have influenced the continuance of it became a violation of Section 1 upon the expiration of the patent, at which time there was not even the extraneous influence of the patent to induce continuance of the contract or to inhibit Wheelabrator from selling whatever SGA it wished, obtained at whatever price from whatever of the many available sources it might elect to use.

CONCLUSION

This petition for a writ of certiorari should be granted as to both of the questions presented.

Respectfully submitted,

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APPENDIX A

United States Court of Appeals
FOR THE EIGHTH CIRCUIT

No. 71-1538

AGRASHELL, INC.,
Appellant,

vs.

HAMMONS PRODUCTS COMPANY,
Appellee.

Appeal from United States District Court for the Western District of Missouri

Submitted: June 15, 1972
Filed: March 30, 1973

Before ROSS and STEPHENSON, Circuit Judges, and URBOM, Chief District Judge.

ROSS, Circuit Judge.

Agrashell, Inc. (Agrashell) appeals from a judgment entered on a jury verdict in favor of Hammons Products Company (Hammons), on a counterclaim filed by Hammons in a patent

infringement suit alleging violations of sections 1 and 2 of the Sherman Act and requesting treble damages under the Clayton Act. For reasons hereinafter set forth, we reverse in part and affirm in part the judgment of the trial court and order the dismissal of that portion of the counterclaim alleging violations of section 2 of the Sherman Act.

Procedural History

Agrashell instituted a patent infringement action against Hammons in 1963. The trial court granted Hammons a summary judgment because it found that Agrashell, as an exclusive licensee, did not have a right to sue for patent infringement in its own name without participation of the patent owner as party-plaintiff. *Agrashell, Inc. v. Hammons Products Co.*, 248 F. Supp. 258, 260 (W.D. Mo. 1965), *aff'd*, 352 F.2d 443 (8th Cir. 1965).

Although the patent expired in 1964, Agrashell obtained an assignment of title to the patent and refiled the action in 1965 for past infringement. These proceedings were stayed pending the outcome of the appeal from the 1963 summary judgment. Thereafter, Hammons filed an answer and counterclaim charging violations of sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1-2) and for a declaratory judgment of patent invalidity, unenforceability and noninfringement. The case was then set for trial.

A motion. made by Agrashell at the outset of the 1967 infringement trial, to sever the antitrust counterclaim issue from the patent issue was granted at the conclusion of the patent infringement portion of the case. On the patent claim, the trial court entered judgment for Hammons, finding the patent invalid and not infringed either directly or contributorily. The court also found that even if the method claim were valid, it was not infringed by Hammons. *Agrashell, Inc. v. Hammons Products Co.*, 279 F. Supp. 522 (W.D. Mo. 1967), *aff'd*, 413

F.2d 89 (8th Cir. 1969). The court, however, denied Hammons' request for attorneys' fees pursuant to 35 U.S.C. § 285.

Immediately following the trial of the patent issue, both parties conducted discovery relating to Hammons' antitrust counterclaim, and Hammons requested a jury trial. Agrashell then requested leave of the court to file an amended reply and counter-counterclaims for breach of contract and antitrust violations. Agrashell alleged that Hammons had violated sections 1 and 2 of the Sherman Act, section 7 of the Clayton Act (15 U.S.C. § 18), and the Robinson-Patman Act (15 U.S.C. § 13). Both requests were granted and the case proceeded to trial in 1970.

At the outset of the 1970 trial, Hammons moved for trial of its counterclaim separate from trial of Agrashell's counter-counterclaim. The trial court decided that each case would be presented separately but to the same jury. However, five weeks later, at the close of all of the evidence on Hammons' counterclaim, the motion for severance was granted over Agrashell's objection, Agrashell's motions for a directed verdict were denied,[1] and a verdict was returned by the jury in favor of Hammons. Thereafter, pursuant to a stipulation of the parties, Agrashell's counter-counterclaims were dismissed without prejudice. Agrashell's motions for judgment n.o.v. or for a new trial were denied, and this appeal was taken.

Statement of Facts

A. The Product

This case involves the use of processed nutshells in two ways: First, as a soft grit abrasive (SGA) in cleaning operations, and

1. At the same time, however, the trial court noted that it refused to submit to the jury the issue of fraud in the procurement of the patent. *See Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

secondly, as lost circulation material (LCM) used in oil well drilling.

SGA is "soft" in relation to harder abrasives such as sand. For example, SGA is projected against deposits on engine parts by air blasting and other means so as to remove the deposits with a minimum of damage to the part itself. While SGA may be composed of nutshells, it may also be composed of fruit pits, sawdust, rice hulls, corn cobs and clover seeds. The type of nutshells used may also be differentiated as either soft or hard. Agrashell sells SGA which is composed of black walnut and apricot pit shell, and Hammons sells SGA which is composed solely of black walnut shell.

Various companies processed or "manufactured" SGA in some form during the time periods in question. Agrashell of Los Angeles, California; Hammons of Stockton, Missouri; Gravette Shelling Company of Gravette, Arkansas[2] (Gravette); Block Brothers, Inc. of Nashville, Tennessee; and Block Walnut Processing Corp., of Nashville, Tennessee (known together as Block); Continental Nut Company of Chico, California (Continental); Industrial Flour and Abrasives Company of Morristown, Tennessee (Industrial Flour); Lufkin Pecan Company of Lufkin, Texas (Lufkin); Star of Texas Company of Fort Worth, Texas (Star of Texas); Texas Feed and Grain Company of Fort Worth, Texas (Texas Feed); and Southeastern Reduction Company of Valdosta, Georgia (Southeastern) are, or were during the periods of time in question, processors of SGA. Various companies distributed SGA, but apparently did not manufacture it: Pangborn Corporation of Hagerstown, Maryland (Pangborn); American Wheelabrator & Equipment Corporation of Mishawaka, Indiana (Wheelabrator) [both Pangborn and Wheelabrator were large manufacturers of blast cleaning equipment]; Composition Materials Company

2. Hammons acquired the controlling interest in Gravette in August of 1966

(Composition) [Block's jobber]; Bernard Sirotta Company of New York, New York (Sirotta) [which at one time sold Hammons' SGA], and several others distributed Agrashell's SGA.

The Pan American Petroleum Corporation developed another use for processed nutshell and patented the idea, giving Cherokee Laboratories an exclusive license under the patent for part of the time relevant here. Pan American's patent covered the use of processed nutshells in controlling the loss of circulation of drilling muds utilized in oil well drilling. Agrashell sells this "lost circulation material" (LCM) which is composed primarily of english walnut shell and thus different from its SGA. Hammons sells LCM which is almost identical to its SGA, except for somewhat different sizes of the particles. LCM may also be composed of nonnutshell products ranging from cotton seed hulls to golf balls. Other companies, including Gravette and Block, manufacture nutshell LCM.

The geographic markets for LCM and SGA are different. SGA is sold nationwide, with emphasis in the industrial northeast, while LCM is concentrated in the Mid-Continent and Gulf States oil producing regions.

B. The Patent

Frank Perry, a civilian employee at an army air depot in California during World War II, learned that projecting ground black walnut shells of 10/15 or 10/30 mesh size against airplane engine parts constitued an ideal SGA. Perry applied for and was granted a patent, basically claiming

> "the *method* of cleaning metal by 'projecting there against a stream of fluid under pressure carrying in suspension therein pelletized black walnut shells,' and a *product*, 'an abrasive material for use in air blasts for cleaning metal comprising

pelletized black walnut shells.'" *Agrashell, Inc. v. Hammons Products Co., supra,* 279 F. Supp. at 522.

It was later learned that apricot pits have very similar physical characteristics to the black walnut shell, and they are used interchangeably by Agrashell.[3] *Id.* at 523.

Perry assigned the patent to Turco Products Company, Inc., which granted an exclusive license to Agrashell. The patent was in turn assigned to Purex Corporation, when Turco merged with Purex, and finally was assigned by Purex to Agrashell. Throughout this entire period, dating from 1947, Agrashell had an exclusive license. The patent expired on June 10, 1964.

C. The alleged Sherman Act violations

Hammons' claim was essentially that Agrashell had attempted to monopolize hard nutshells within the SGA markets in violation of section 2 of the Sherman Act by means of infringement suits and certain formal and informal contractual relationships so as to extend the Perry patent beyond its terms and life. Hammons also claimed that certain formal and informal contractual relationships unreasonably restrained trade in hard nutshells within the SGA markets in violation of section 1 of the Sherman Act because the arrangements extended the Perry patent beyond its terms and life.

(1) The Sirotta suit

In 1958 Sirotta had begun to purchase Hammons' SGA for sale to Sirotta's customers. In October of 1960 Sirotta received

3. The Perry Patent Reissue indicates that the shells to be used were those "having the hardness of black walnut shells," as well as, black walnut shell alone. The patent "contemplates the use of pellets of other types of ground or cracked nutshells having equivalent characteristics" of black walnut shell. The testimony of both parties indicated that apricot pit shell and black walnut shell have similar hardness, resilience, and resistance to breakdown characteristics.

a notice of infringement from Agrashell; Agrashell had in 1954 written Sirotta about the possibility of infringement liability. Sirotta contacted patent counsel who investigated the situation and concluded that there was insufficient basis to challenge the patent at least insofar as "prior art" was concerned. Sirotta was selling nutshell SGA, including black walnut and apricot pit SGA, for use in blasting equipment, including air blasting equipment. Settlement negotiations broke down between Agrashell and Sirotta and the infringement suit was filed in February of 1963.

During the course of taking a deposition Bernard Sirotta, the president of Sirotta, asked to speak to Ayers, the president of Agrashell, alone. Sirotta purportedly asked Ayers whether the suit could be settled as between two businessmen. Sirotta claims Ayers replied as follows:

> "There can be only one way to settle this matter and that is for you to get out of the business. You have no right to be in the walnut shell business. This is my domain. If you do not leave the business, I will cut prices so low that you will not be able to survive."

Ayers contradicted this statement at trial and indicated that he only asked Sirotta about his position in light of the Perry patent and told Sirotta that he thought he was infringing the Perry patent.

Hammons was impleaded by Sirotta as a third party defendant on the basis of an indemnity agreement between Hammons and Sirotta established when Sirotta bought Hammons' SGA. Hammons resisted Sirotta's attempt to obtain jurisdiction over it, *see Agrashell, Inc. v. Bernard Sirotta Co.*, 344 F.2d 583 (2d Cir. 1965), but finally entered a personal appearance in the suit in 1966 and counterclaimed against Agrashell for antitrust violations. The Sirotta litigation was settled when Sirotta payed $2,500 to Agrashell in 1968.

Hammons' counterclaim in the Sirotta action was dismissed by stipulation without prejudice.

(2) The Hammons suit

In April of 1962 Hammons agreed to supply Agrashell with black walnut shell of a mesh size suitable for blast cleaning. Shortly after the consummation of that agreement, Ayers visited with the Hammons officers. Although the evidence is conflicting, Ayers apparently informed Hammons that he had a patent for cleaning metal utilizing black walnut shell. He indicated that his lawyers advised him to sue every shell grinder who was infringing the patent but that he did not intend to sue Hammons because Hammons had not been cutting prices. An official of Hammons testified that Ayers

> "made us aware of the Perry Patent, and then also that there was some discussion on lost circulation material and he told us that the main purpose of his visit was to get acquainted, check our material, and to see if we couldn't work out a lost circulation price that would be profitable to everybody involved."

The official further testified:

> "Mr. Ayers advised me that his attorney had advised him to sue everyone who was in the [sic] selling soft grit abrasive materials. However, that they didn't plan to sue everyone but they were going after those who were guilty of cutting prices."

The official was asked whether Ayers made any statements about Hammons' LCM price and the official responded that Ayers stated "he didn't think that we were cutting prices and from the prices that they gave me at that time, we were getting approximately the same prices, close not exactly, but close "

In June of 1962 Hammons signed an LCM contract with a former customer of Agrashell. Shortly thereafter Ayers called Hammons wanting to know about the contract. Ayers was told only that there was a contract, but no specifics were given to him. About October of 1962 Agrashell began to complain about the SGA material supplied to Agrashell and its customers, indicating that Agrashell had received a number of complaints relating to objectionable dust in the Hammons product sold to Agrashell and to its customers. In November of 1962 Agrashell ordered Hammons to stop production for Agrashell's account with regard to the prior contract. In December of 1962 Agrashell sent Hammons a notice of infringement of the Perry patent.

Agrashell was willing to settle the matter based upon the payment of royalties on "pellets of black walnut shells, or other nutshells (including apricot pit shells) equivalent thereto for blast cleaning purposes" sold by Hammons for or used as SGA and requiring Hammons to accept a license. Negotiations broke down partly because Hammons did not consider apricot pit shell to come within the confines of the Perry patent but primarily because Hammons finally decided it would not pay the royalty after first evidencing an intent to settle on that basis. Agrashell's suit against Hammons was filed on August 7, 1963.

In its complaint filed in 1965 after acquiring title to the patent, Agrashell alleged, among other things, that:

> "Within the six (6) years last past, and within the term said reissued letters patent, defendant has manufactured, sold, used, and actively induced others to use within the Western District of Missouri and elsewhere pelletized nutshells having the hardness of black walnut shells, including pelletized black walnut shells and such pelletized nut shells having screen sizes of 10-30 mesh and 10-15

mesh, for the cleaning of articles by use of the pelletized nut shells in blasts projected against the articles. Defendant thereby has infringed said reissued letters patent."

Hammons answered, asserting affirmative defenses and counterclaims. Hammons alleged, among other things, that Agrashell had misused the patent by attempting to extend it to materials not covered including "walnut shells and/or ground fruit pits." Hammons counterclaimed asserting, among other things, that Agrashell had attempted to restrain and did restrain trade in commerce of ground black walnut shells in violation of the Sherman Act, 15 U.S.C. §§ 1-2. Hammons additionally claimed that the Perry Patent Reissue had been obtained by virtue of fraud in that Agrashell knew of a prior patent covering the same conception patented in the Perry Patent Reissue.

A meeting between Agrashell and Hammons was arranged on March 24, 1966, by an official of Gravette who apparently wanted to clarify the situation between Gravette and Agrashell. The relationship between Gravette and Agrashell was awkward because while Gravette and Agrashell had engaged in certain contractual relationships, Hammons, who was being sued by Agrashell, was in the process of acquiring the majority of Gravette's stock. During this meeting, an official of Agrashell, apparently in response to a question from an official of Hammons about Agrashell's position in the lawsuit, indicated that if Hammons was interested in concentrating on the walnut meats alone, Agrashell would be interested in handling Hammons' shell product or acquiring their shell grinding facilities.

No agreement being reached and neither party having requested a jury, trial was commenced before the district court on March 20, 1967. On that day one of Agrashell's counsel moved to sever the antitrust counterclaim. The motion was taken under advisement. The district court held that the patent was invalid due to obviousness and therefore not infringed, but

that even if the *method* claim was valid it was not infringed either directly or indirectly.[4] *Agrashell, Inc. v. Hammons Products Co., supra,* 279 F. Supp. at 522-524. Prior to its judgment on the patent case, but after all evidence had been taken with regard to the infringement side of the suit, the district court ordered a continuance with regard to the antitrust counterclaim. The district court also declined to award attorneys' fees to Hammons.[5] *See* 35 U.S.C. § 285.

(3) Contracts

Two types of contractual-like arrangements are involved in this case. The first is known as a "Statement of Policy" which Agrashell sent to some of its sales agents. The policy had three essential parts which are especially relevant: Agrashell reserved the right to set selling prices to the ultimate consumer invoiced by the agent; the selling agent agreed to buy, sell and merchandise *only* Agrashell SGA as long as the agent distributed Agrashell SGA; and Agrashell averred that it was the exclusive licensee under the Perry patent and had the exclusive right to convey the right to use SGA materials.

The Statement of Policy was first formulated some time in the late 1940's. Agrashell contended at trial that the agents who

4. In the judgment the district court did not explicitly state whether the product claims would have been infringed by the Hammons product if the patent was valid. But in the trial of the antitrust counterclaim the same district judge referred to the Hammons product as an "admittedly infringing product."

5. During the trial of the antitrust counterclaim the trial judge explained why he did not award attorneys' fees to Hammons in the patent case:

> "I had read the few cases that are in the books under it [35 U.S.C. § 285] and to me, the determining factor was a question of good faith and I--whether I had the proper interpretation of good faith or not, I came to the conclusion there was no question that the plaintiffs [Agrashell] thought they had a valid patent, they were trying to uphold what they thought was a valid patent, and they brought the suit in good faith in that sense * * * ."

sold its SGA were never bound by the provisions of the policy, and two of Agrashell's agents testified that they were neither familiar with the Statement of Policy nor operated under it. However, there is Agrashell correspondence which tends to support the inference that the Statement of Policy was agreed to by some of the agents.

While there was Agrashell correspondence which indicated the possibility of sale of SGA to agents for resale, there was direct evidence from two of Agrashell's agents who testified that they never took title to the goods, never insured against loss, never paid storage costs, never paid taxes on the goods, and were merely paid a commission for the sales they made of Agrashell's products.

The second type of contractual arrangement involved the negotiation of more formal contracts with Wheelabrator and Pangborn. The contract with Wheelabrator was negotiated in 1950, and it appointed Wheelabrator, a large manufacturer of blasting equipment, Agrashell's *del credere* factor for the sale of SGA. The contract also established that Wheelabrator was to receive a commission on the sale of Agrashell's SGA, that Wheelabrator did not need to maintain an inventory of SGA, that Agrashell would ship directly to the buyer, and that Agrashell would be able to set the selling price. If, for certain enumerated reasons, Agrashell could not fill Wheelabrator's orders, Wheelabrator, after notification to Agrashell, was free temporarily to obtain similar materials for its requirements. This contract could be terminated by giving notice 60 days prior to any anniversary date thereof.

The contract with Pangborn, another large blast cleaning equipment manufacturer, was negotiated in settlement of an infringement suit brought by Agrashell against Pangborn. Pangborn had been selling black walnut SGA obtained from Gravette

The Pangborn agreement bound Pangborn to handle only Agrashell SGA until the patent expired, and after that time, for a period of some three years, Pangborn agreed to buy from Agrashell all of the SGA it needed unless a competitor could quote a lower price on similar quality goods, in which case Pangborn remained bound to buy from Agrashell unless Agrashell elected not to meet the lower price. The Pangborn agreement did not allow Agrashell to set prices. An administrative assistant to the president of Pangborn testified that at no time under the contract did Pangborn own the Agrashell product or pay taxes or freight costs thereon.

(4) Related activity

On June 13, 1962, Ayers visited Jimmy Cox, president of the Block companies. Block had been active in the LCM and black walnut shell SGA markets. The substance of the conversation between Ayers and Cox purportedly involved Ayers' dissatisfaction with the price structure in the LCM market in particular and the shell business in general. Ayers noted that he had a price stabilization plan for the LCM market, but Cox would not agree to any price stabilization plan. Ayers indicated that if Block would not agree, Agrashell would enforce its patent. About a month later Block received a notice of infringement from Agrashell.

Suit based, in part, on the Perry patent was filed against Block in March of 1963. The suit was finally settled for $2,500, with Block paying half and Composition Materials, its jobber, paying half. Ayers contradicted Cox's testimony concerning this incident at the trial and contended that the only purpose for his visit to Block was to speak about Block's infringement of the Perry patent with regard to SGA and to speak about a joint promotional program for the sale of LCM.

After Agrashell's settlement with Pangborn, an official of Gravette approached Agrashell with the proposition that

Gravette might become licensed under the Perry patent. Gravette had concluded that if Pangborn was satisfied that the Perry patent was valid it too would recognize the patent. During a meeting between the president of Agrashell and officials of Gravette, Ayers allegedly stated that there was "one of two ways this can be handled, either by lawsuit or by negotiating a contract." A contract was negotiated by Agrashell and Gravette with Gravette agreeing to supply black walnut shell processed and suitable for use as LCM, although 10 percent of the material might be shell suitable for SGA use. The contract, which was negotiated prior to the expiration of the patent, extended some three years after the expiration of the patent.

D. The Verdict and Damages

The district court sent the counterclaim to the jury after five weeks of trial, but he refused to submit the issue of whether the patent had been fraudulently procured because he felt that no submissible case of patent fraud had been established. The jury returned a verdict in favor of Hammons and assessed damages in the sum of $204,124.21. That sum was comprised of $162,374.21 for litigation expenses and, $41,750.00 for loss of profits. The jury assessed no damages for injury to going concern value. The gross amount of damages was trebled by the district court and that sum equaled $612,372.63. The district court awarded attorneys' fees of $150,000.00 and costs of $13,361.31. The total judgment was $775,733.76.

The litigation expense damage was predicated upon Hammons' proof of the amount it had spent to defend the patent infringement suit brought against Sirotta, $20,455.20, and the amount it had spent to defend the infringement suit Agrashell brought against Hammons itself, $141,919.01.

The jury award of $41,750.00 in damages was apparently based upon evidence adduced by Dr. Kuhlman, an economist. His testimony concerning the damages sustained by Hammons

was the only theory of damages Hammons presented and is summarized later in this opinion.

Issues Presented on Appeal

In its appeal from the judgment of the trial court, Agrashell raises these issues:

1. Whether Hammons failed to establish that Agrashell had violated the Sherman Act and by so doing proximately injured Hammons.

2. Whether Hammons' claims were barred by principals of res judicata, collateral estoppel, or compulsory counterclaim.

3. Whether certain instructions relating to "dangerous probability," prosecution of the suit for patent infringement, "target area," and agency arrangements, were prejudicially erroneous.

4. Whether prejudicial error occurred in the conduct of trial relating to the issues of waiver of jury trial, admission of deposition testimony, and exclusion of offers of compromise.

Sufficiency of Proof of Sherman Act Violations and Damages

Hammons alleged violations of both section 1 and section 2 of the Sherman Act. After a careful review of all of the pleadings, testimony and exhibits, we are convinced that Hammons did make a submissible case under section 1 of the Sherman Act but did not make a submissible case under section 2 of the Act; and that the trial court should have granted the motion for a directed verdict made at the close of all of the evidence as to section 2. That motion stated, in part, that

"Hammons has not established by sufficient competent evidence a violation of ... section 2 of the Sherman Act by Agrashell."

A. Section 1

Section 1 of the Sherman Act proscribes contracts in restraint of trade or commerce. Hammons claims that the written contracts with Pangborn and Wheelabrator and the "Statement of Policy"[6] used with Agrashell's sales agents as heretofore described, and the alleged illegal use of the patent in those contracts, constituted restraint of trade, and that as a result of those alleged contracts in restraint of trade, it was damaged by loss of business. Agrashell claimed that the contract with Wheelabrator did not require Wheelabrator to deal exclusively in Agrashell's SGA; that the requirement to that effect in the contract with Pangborn terminated upon the expiration of the patent; that the "Statement of Policy" was not a contract but a unilateral declaration by Agrashell which could not be and was not enforced; that in any event Pangborn, Wheelabrator and the other sales representatives were not purchasing for resale but merely selling as agents for the account of Agrashell with Agrashell retaining title to the goods until delivery to a buyer and therefore under *United States v. General Electric Co.*, 272 U.S. 476 (1926), such sales agency agreements with price fixing provisions were legal, especially in view of the patent and the presumption of validity that attached thereto prior to its expiration; and that before recovery can be had under section 1 of the Sherman Act, Hammons must prove damages with a reasonable degree of certainty resulting from the alleged illegal contracts. While there is much merit in several of these allegations by Agrashell, we cannot say that the evidence was insufficient for the jury to

6. Although the trial judge commented that the "Statement of Policy" pertained to the intent issue under section 2, Hammons' proof also presented the "Statement of Policy" in terms of section 1

find that the Pangborn and Wheelabrator contracts were violative of section 1 of the Sherman Act.

First, we conclude that Hammons failed to prove that the Statement of Policy established either formal or informal contractual relationships with Agrashell and its agents in the market place. Hammons called no agents to testify as to their relationships with Agrashell, but relied solely on Agrashell's correspondence which indicates that the Statement of Policy was sent to a number of agents. In contrast, there was only one letter which tends to prove that Agrashell would not deal with an agent unless he agreed to the Statement of Policy. Moreover, some of the correspondence clearly indicates that Agrashell dealt with the agents whether or not they agreed to the Statement of Policy.

More significant, in terms of the practical application of the Statement of Policy in the market place, is the testimony of two Agrashell agents allegedly subject to the Statement of Policy. William T. Hall, chairman of the board of the C. P. Hall companies, together one of the largest if not the largest Agrashell agent, testified that he had never seen nor heard of the Statement of Policy. He further testified that he did not consider himself bound to deal only with Agrashell, and that he did deal in other types of SGA such as corn cob SGA and glass SGA. John C. Lorenzen, a partner in the Russ-Cattell company, likewise testified that he had never seen the Statement of Policy. Furthermore, Lorenzen testified that he handled other types of SGA.

Second, Agrashell strenuously argues that the Wheelabrator contract with its price fixing provision was legal when viewed in light of the doctrine promulgated in *United States v. General Electric Co., supra,* 272 U.S. at 488. *General Electric* stands for the proposition that a patent holder does not violate the antitrust laws by seeking to dispose of his products directly to

the consumer and fixing the price by which his agents transfer the title from him directly to the consumer. On the other hand, *General Electric* does not allow the patent holder to sell his product to a person and then control the resale price. Assuming that the Wheelabrator contract was a contract of agency, *see* RESTATEMENT (SECOND) OF AGENCY § 14J (1958), we think that whatever protection *General Electric* afforded the Wheelabrator contract ended when the patent expired. *See generally* R. NORDHAUS and E. JUROW, PATENT-ANTITRUST LAW at 147-166 (Nordhaus Ed. 1972). *Cf. Simpson v. Union Oil Co.*, 377 U.S. 13, 21-24 (1964). Since it was clear that the Wheelabrator contract was in effect continuously from 1950, we think the jury could have correctly concluded that the Wheelabrator contract extended the life of the patent beyond the expiration date and constituted a contract in restraint of trade.

Third, the Pangborn contract, negotiated prior to the expiration of the patent, extended the power of the patent beyond the life of the patent. The contract provided:

> "If, after June 10, 1964, PANGBORN furnishes written evidence of its ability to purchase blast cleaning aggregates made from nut shells of equal quality and at lower prices than AGRASHELL'S selling prices to PANGBORN, AGRASHELL shall have the privilege of either meeting such prices as quoted from a bona fide supplier or permitting PANGBORN to purchase its requirements elsewhere after first tendering the order to AGRASHELL in writing."

Since the Pangborn contract was negotiated prior to the expiration of the patent, but extended past the expiration of the patent:

> "[A]ny attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly after the patent expires, whatever the legal

device employed, runs counter to the policy and purposes of the patent laws. . . ." *Scott Paper Co. v. Marcalus Manufacturing Co.*, 326 U.S. 249, 256 (1945). *Accord, Brulotte v. Thys Co.*, 379 U.S. 29, 31 (1964).

The Supreme Court, when faced with a somewhat similar provision, has noted the antitrust implications:

> "The appellant had at all times a priority on the business at equal prices. A competitor would have to undercut appellant's price to have any hope of capturing the market, while appellant could hold that market by merely meeting competition. We do not think this concession relieves the contract of being a restraint of trade, albeit a less harsh one than would result in the absence of such a provision. . . ." *International Salt Co., Inc. v. United States*, 332 U.S. 392, 397 (1947).

As a consequence, we conclude that the jury was entitled to find that the Pangborn contract extended the life of the patent unlawfully and constituted a contract in restraint of trade.

Turning now to Agrashell's argument that Hammons failed to prove the fact of damage resulting from the use of the contracts and Statement of Policy, it should first be noted that its expert testimony concerning its damages and the computation thereof, does not include any reference to any loss of business which it once had, but only business which Agrashell had during the entire period in question and which Hammons felt that it *should* have had. In this respect this case is analogous to the case of *Herman Schwabe, Inc. v. United Shoe Machinery Corp.*, 297 F.2d 906, 910 (2d Cir.), *cert. denied*, 369 U.S. 865 (1962), in which Judge Friendly noted as follows:

> "Plaintiff's theory here was not that acts by defendant had unlawfully deprived it of something it previously possessed. It could not well have been so since there was

> nothing to indicate that defendant's conduct had changed for the worse during the damage period or, indeed, since plaintiff was organized, and plaintiff's original investment of $10,000 had produced an earned surplus of over $300,000 by 1961, after substantial salary payments to Mr. Schwabe, its sole stockholder, and dividends. Plaintiff's evidence, therefore, was necessarily directed to attempting to show how defendant had unlawfully deprived it of business it might otherwise have secured. It was entirely competent for plaintiff to seek to show this . . . ."

Indeed, the evidence showed that both Agrashell and Hammons prospered during the period in question and made overall gains in the sale of their nutshell products.

Hammons' evidence of damages was adduced from the expert testimony of Dr. Kuhlman during which the charts summarizing the damages were submitted. Briefly stated, Dr. Kuhlman first gave his opinion that Agrashell had erected barriers around a portion of the hard nutshell SGA market. These barriers were the patent, the patent litigation, price fixing, and exclusive dealing arrangements. He then looked for a portion of the market where those barriers were not present or at least not a factor and chose the Columbus, Ohio SGA market. The sole customer in this market was Western Electric. Both Agrashell and Hammons sold to Western Electric, Hammons selling direct and Agrashell selling first by agents and later direct. Having thus found what he considered to be a market without barriers, he determined that over a period of years Hammons had 60 percent and Agrashell had 40 percent of the SGA business in that market. He then concluded that therefore Hammons should have 60 percent of *all* of Agrashell's SGA business which it conducted through its principal agents. He figured Hammons' damages by taking the average price at which Agrashell sold in the Columbus market, multiplied by 60 percent of Agrashell's volume with its dealers and deducted therefrom the amount for which Hammons sold the same volume of material as LCM. His

theory in this regard was that if the barriers had not existed Hammons would have been able to sell this substantial quantity of material as SGA at $109 per ton average rather than as LCM at $83 per ton average and that therefore Hammons' damages were $26 per ton of 60 percent of the tons which Agrashell sold through its dealers, or a total of $160,924.55. This approach, although unique, has many practical defects.

The first defect is in the use of the Columbus market as a fair example of what might have happened nationwide in the absence of the barriers. In the first place, there was only one customer in the market, and it bought in substantial quantities as distinguished from most of Agrashell's customers who bought in smaller quantities from stocks shipped into warehouses for distribution by agents. Secondly, there is no evidence as to whether or not that customer bought only from Agrashell and Hammons or also from other suppliers. More importantly, the evidence is clear that Agrashell sought to sell to Western Electric, SGA composed of both black walnut shells and apricot pits while Hammons offered a product composed of only black walnut shells. The evidence also establishes that Western Electric was a sophisticated buyer and may not have always used the two products interchangeably.[7]

Dr. Kuhlman acknowledged that in making his estimate of damages he had not considered the impact of sales of SGA by companies other than Agrashell and Hammons. Even assuming that the alleged barriers kept Hammons from its fair share of the market, it is difficult to understand how anyone could reliably determine what share Hammons should have had without knowledge of the market shares other competitors might have captured.

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[7] Evidence that Western Electric did not consider the products interchangeable is the fact that during the three years that Agrashell made no sales in the Columbus market (1963-1965), Hammons' sales did not increase as a result

In addition, Dr. Kuhlman did not explain why Agrashell's alleged anticompetitive conduct, which was supposedly so effective in other places, was not effective in the Columbus market. Apparently one reason for selecting the Columbus market was the fact that both Agrashell and Hammons had been in some sort of competitive relationship for a number of years. The failure to explain why the Columbus market was isolated from Agrashell's conduct is highly suspect considering some of the evidence adduced at the trial. For instance, in 1962 when Agrashell did use an agent in the Columbus market and when the patent was still viable Hammons sold 111 tons of SGA and Agrashell 47. In 1963 when Agrashell wrote to Western Electric using the words "patent protected soft grit abrasive," a technique which Kuhlman specifically labeled as a "barrier," Hammons sold 98 tons of SGA and Agrashell sold none. Still further in 1967 and 1968, long after the patent expired and long after Agrashell had ceased doing business with an agent in the Columbus market, Hammons' sales fell dramatically with Hammons selling 29 tons in 1967 to Agrashell's 114.325 tons, and 54 tons in 1968 to Agrashell's 127.25 tons.

In applying the percentages derived from the Columbus market, to the national market serviced by Agrashell's agents, Hammons' expert witness seemingly ignored critical differences between the two markets. In the Columbus market shipments were made direct in large quantities, thereby allowing Hammons to compete without agents or warehouse facilities. Most of Agrashell's ultimate customers, serviced by its agents, bought in smaller quantities after Agrashell had established regional warehousing permitting prompt delivery of various sizes and types of its products. Hammons sold direct, or to jobbers for resale from warehouses owned by the jobbers, or by manufacturers' representatives with orders shipped direct from Hammons' plant. Hammons did not maintain regional warehouse facilities in order to service these smaller orders.

The evidence indicates that Hammons' representatives visited Pangborn in 1958 and 1962——both visits apparently coming before Pangborn was an Agrashell agent. There was also correspondence with Pangborn in 1961——before Pangborn was an Agrashell agent. Hammons made no attempt to solicit the business of C. P. Hall of Ohio. Apparently the only attempt to acquire the business of C. P. Hall of Illinois was the sending of a sample to Hall after *Hall* called Hammons after receiving a form letter solicitation. No further attempt was made to contact C. P. Hall of Illinois. It is noted that the C. P. Hall companies combined composed well over one-third of the business Hammons claimed to have lost. Solicitation of the Wheelabrator business involved sending two letters in response to a form letter from Wheelabrator trying to sell a machine to Hammons. The evidence indicates that Wheelabrator actually bought SGA from Hammons; some four to five 50 pound bags. This evidence tends to indicate two things. First, Hammons' sales efforts were rather ill-suited to acquiring the business of Agrashell agents. Second, when Hammons did try to solicit the business of the agents, at least C. P. Hall and Wheelabrator either bought or expressed an interest in the Hammons' product, and apparently did not consider themselves bound to deal only with Agrashell. This conclusion is strengthened by the testimony of Hammons' own vice president that he could not recall ever being told by an Agrashell agent that it could not deal in a Hammons' product because of the Perry patent or the Statement of Policy

More importantly, there was no evidence tending to show why Hammons could not sell direct or through agents to the ultimate consumers who were purchasing from Agrashell through Agrashell's agents. It is clear that the so-called barriers did not stop Hammons from selling a similar product to Western Electric, or to the automobile manufacturers in the Detroit area where it had 100 percent of the SGA market It is also clear that Agrashell's ultimate consumers were paying higher prices than Hammons was receiving in its sales to Western Electric which should have made it easier for Hammons to compete for

this business.[8] One conclusion that could be reached is that the only thing that kept Hammons from selling to the ultimate consumers serviced by Agrashell's agents from Agrashell's warehouses is either the failure of Hammons to actively solicit the business or its failure to maintain regional warehouse facilities to permit prompt delivery of small quantities of a variety of sizes of SGA. The evidence discloses very little active solicitation of Agrashell's ultimate consumers by Hammons, and the premise of Dr. Kuhlman that Hammons would have obtained 60 percent of their business except for the alleged barriers is highly questionable in light of these facts.

We also note that Dr. Kuhlman based his damage estimate on the implicit assumption that the patent and the patent litigation constituted illegal barriers in addition to the exclusive dealing and price fixing provision of the contracts. The assumption that the patent was an illegal barrier prior to its expiration was conclusively negated when the trial judge ruled that the patent had not been fraudulently procured. Likewise the assumption that the patent litigation constituted a unilateral attempt to monopolize and thus an illegal barrier is negated by our finding later in this opinion that Hammons failed to make a submissible case of an attempt to monopolize. Thus two of the four structural supports of Kuhlman's damage theory were highly questionable.

We have described some of the serious failings of Dr. Kuhlman's damage testimony to indicate our hesitancy to allow a jury to assess damages upon such a theory:

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8. When Dr. Kuhlman was asked why Hammons failed to attempt to sell to Agrashell's ultimate consumers, he was unable to explain other than by vaguely referring to restrictions wherever Agrashell sold through an agent. To the contrary, Dr Poe, Agrashell's expert could find nothing in the agreements or Statement of Policy which would impose a barrier to the ultimate consumer In fact, if Agrashell help up its price it should be expected that another seller could come in and sell at a lower price

> "[P]roof of an isolated violation of substantive law will not entitle defendants to an affirmative recovery. Before a party is entitled to recover treble damages he must be able to plead and prove actual monetary injury to his business or property resulting from the illegal act. . . . It has long been the law that damages which are purely speculative, remote, or based upon conjecture cannot serve as a base for antitrust recovery. . . ." *American Infra-Red Radiant Co., Inc. v. Lambert Industries, Inc.*, 360 F.2d 977, 995-996 (8th Cir. 1966).

Our critique of this damage formulation must be tempered, however, by the Supreme Court's statements relating to the proper function of an appellate court when reviewing damage evidence. As the Supreme Court has forcefully stated:

> "[An antitrust plaintiff's] burden of proving the fact of damage under Section 4 of the Clayton Act is satisfied by his proof of *some* damage . . . inquiry beyond this minimum point goes only to the amount and not the fact of damage. It is enough that the illegality is shown to be a material cause of the injury; a plaintiff need not exhaust all possible alternative sources of injury in fulfilling his burden of proving compensable injury under Section 4." *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 114 n.9 (1969).

The Supreme Court has consistently reminded critics of damage formulations that an antitrust violator may not properly complain about damage proof vagaries when such ambiguity results from the illegal act itself. *See e.g., Bigelow v. RKO Radio Pictures, Inc.*, 327 U.S. 251, 265 (1946); *Eastman Kodak Co. v. Southern Photo Materials Co.*, 273 U.S. 359, 379 (1927). With these principles in mind we cannot say that as a matter of law, Dr. Kuhlman's theory failed to demonstrate the fact or

quantum of damage with sufficient clarity. For these reasons the jury award of $41,750.00 must stand.

Our inquiry does not end with this finding however. The award of litigation damages allegedly incurred by Hammons when Agrashell filed certain infringement suits must stand or fall on whether the jury could properly conclude that Agrashell "attempted to monopolize" under section 2 of the Sherman Act. It is clear that the act of filing the infringement suits is a unilateral act and section 2, in contrast with section 1, is the proper method to test unilateral activity such as that involved in this case:

> "The Congress which wrote the Sherman Act directed its main thrust against business conduct involving two or more parties. Section 1, proscribing every 'contract, combination or conspiracy' in restraint of trade, is strictly confined to joint action. Section 2 covers both individual and joint action ...." Turner, *The Definition of Agreement Under the Sherman Act: Conscious Parallelism and Refusals to Deal,* 75 Harv.L.Rev. 655 (1962).

B. Section 2

Section 2 of the Sherman Act makes it unlawful to "monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States * * *." Hammons claimed that Agrashell attempted to monopolize the SGA and the LCM markets although its proof relating to attempted monopolization of the LCM market was quite limited, and during the course of the trial and in its instructions the district court indicated that evidence of Agrashell's actions as to LCM was relevant only to the issue of intent.

In addition to proving an overt act or acts, the essential elements which must be proved in a section 2 attempt to

monopolize case are specific intent and dangerous probability. *See Swift and Co. v. United States*, 196 U.S. 375, 396, 402 (1905); *Kansas City Star Co. v. United States*, 240 F.2d 643, 663 (8th Cir.), *cert. denied*, 354 U.S. 923 (1957); Hibner, *Attempts to Monopolize: A Concept in Search of Analysis*, 33 A.B.A.J. 165, 1966 (1967); Smith, *Attempt to Monopolize: Its Elements and Their Definition*, 27 Geo. Wash. L. Rev. 227, 229-231 (1957).

Although we do not rest our decision relating to section 2 on this issue, we note that the evidence presented at trial with regard to "specific intent" bordered on being insufficient as a matter of law. The issue before the jury was whether Agrashell specifically intended to monopolize hard nutshells within the soft grit abrasive markets by seeking to extend the patent beyond its terms or by extending the life of the patent.

At the outset, we emphasize that the trial court did not submit the issue of fraudulent procurement of the patent to the jury and no cross-appeal was taken on that issue. Thus the declaration of patent invalidity did not prohibit Agrashell from relying on the presumptive validity of the patent. It therefore had every right to bring each of the three lawsuits against Sirotta, Hammons, and Block if its purpose in each case was merely to enforce its rights under the patent. The obvious and difficult problem in this case relates to differentiating between Agrashell's intent to bring suits and enter into contracts under a presumptively valid patent, thereby enforcing and utilizing a lawful monopoly, and its alleged intent to bring suits and enter into contracts under a presumptively valid patent for the purpose of extending the scope of the patent beyond the grant allowed by law. The proof of that alleged illegal intent is thin indeed.

The evidence in this case indicates quite clearly that Hammons sold a product that, but for the declaration of invalidity, would have infringed Agrashell's patent; that Sirotta

sold the Hammons product, which, as the trial judge indicated, was an "admittedly infringing" one; that Gravette and Block also sold an SGA product which was composed of black walnut shell and that Pangborn at one time merchandised Gravette's product; and that Sirotta's patent counsel and Pangborn's patent counsel could not find sufficient grounds for challenging the patent on the grounds the patent was subsequently declared invalid.

Much of Hammons' case rested on the deposition testimony of Sirotta relative to Ayers' statement that Sirotta "had no right in the walnut shell business. This is my domain." It is noted that when this statement was made Ayers had already filed his infringement suit and placed the infringement issue before a court. Moreover, it was Sirotta and not Ayers who precipitated the meeting at which the statement was allegedly made. Understandably we are hesitant to attach much significance to this statement.

We are also hesitant to attach any significance to the evidence which indicates that Agrashell sued Hammons in retaliation for Hammons underbidding Agrashell on an LCM account or to evidence which tends to indicate that Agrashell sued Block because Block would not agree to maintain prices in the LCM market.

We question this evidence because, although Hammons pleaded an attempt to monopolize the LCM market, the relevant markets which were the subject of the attempt to monopolize as defined by the trial judge were solely the SGA markets. Hammons does not question this instruction. Indeed by supplemental brief Hammons argued that it need not prove "dangerous probability" in the LCM markets precisely because of the judge's limited instruction. Although Hammons contends that the LCM intent evidence somehow relates to the issue of intent in the SGA market, we attach little significance to conduct related to a totally distinct product being sold in a different geographic market. .

We turn next to an analysis of whether or not Hammons proved "dangerous probability" of monopolization.

> "The phrase 'attempt to monopolize' means the employment of methods, means and practices which would, if successful, accomplish monopolization, and which, though falling short, nevertheless approach so close as to create a dangerous probability of it * * *." *American Tobacco Co. v. United States*, 328 U.S. 781, 785 (1946); *Central Savings and Loan Ass'n v. Federal Home Loan Bank Board*, 422 F.2d 504, 509 (8th Cir. 1970); *Hiland Dairy, Inc. v. Kroger Co.*, 402 F.2d 968, 971 (8th Cir. 1968), *cert. denied*, 395 U.S. 961 (1969); *Kansas City Star Co. v. United States, supra*.

Thus in this case we must determine whether Hammons presented sufficient evidence from which the jury could properly conclude that Agrashell approached "so close [to monopolization] as to create a dangerous probability of it * * *." *American Tobacco Co. v. United States, Supra*, 328 U.S. at 785.

In *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), the Supreme Court held that enforcement of a fraudulently procured patent may violate section 2 of the Sherman Act provided all other elements are established. This case relates to extending a patent beyond its lawful bounds, but we think the same considerations expressed in *Walker Process* are applicable here. Those considerations are essentially that, even though one possesses a fraudulently procured patent or a patent which is allegedly used in a way to enlarge its scope or life, an analysis of market factors is still necessary. Indeed, the Court specifically stated that the trial court had not "analyzed any economic data" when it reversed. *Id* at 178. Thus it is not enough to argue that one has used a patent in a predatory manner thereby enlarging the scope or life of the patent; one must look to economic data to determine the

impact of the purported illegal activity on the market which is the subject of the attempt to monopolize.

"To establish monopolization or attempt to monopolize a part of trade or commerce under § 2 of the Sherman Act, it would then be necessary to appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved. Without a definition of that market there is no way to measure Food Machinery's ability to lessen or destroy competition." *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., supra,* 382 U.S. at 177. *See also Bernard Food Industries, Inc. v. Dietene Corp.*, 415 F.2d 1279, 1284 (7th Cir. 1969), *cert. denied,* 397 U.S. 912 (1970).

The counterclaim filed by Hammons indicated the product to be "ground black walnut shell," and in submitting the matter to the jury the trial court referred to "the soft grit abrasive industry" and "hard nutshells within the soft grit abrasive markets." The patent refers to "an abrasive material comprising pelletized nut shells having the hardness of black walnut shells." Our conclusion is that while the exact definition of the product is elusive, the proof primarily related to crushed black walnut and apricot pit nutshell used as SGA.

Assuming that the product was thus defined, the definition of the geographic market is even less explicit. Since no attempt was made to narrow the geographic area, we assume the relevant market area is the entire United States. However, no market data was introduced showing the total volume of sales of hard nutshell SGA in the United States or any specified portion thereof; therefore, it is difficult, if not impossible, to know exactly what geographic market Hammons claims Agrashell attempted to monopolize. The two principal submarkets identified by Hammons were Detroit, Michigan and Columbus, Ohio. In Detroit, Hammons apparently had the entire market, and in Columbus, it had a larger share than Agrashell.

Not only did Hammons fail to show the total sales or volume of SGA, it also failed to show what shares of that market were held by Agrashell, Hammons, and several other major competitors.[9] Continental was referred to as one of the five largest companies in the field but no evidence was introduced relating to its volume of sales. Only by associating widely disconnected and at times contradictory portions of the evidence is it possible to piece together the respective sales of Agrashell and Hammons.

Hammons' pleadings attempted to structure the relevant market to include LCM, but by supplemental brief Hammons agreed that LCM was not within the markets the jury was instructed to consider as being the target of the attempt.

In conclusion, we view the evidence relating to "dangerous probability" in this case much as Judge Brown viewed the evidence in *Becker v. Safelite Glass Corp., Inc.*, 244 F. Supp. 625, 638 (D. Kan. 1965), in which he noted as follows:

> "In the case at bar, plaintiff is unaware of the total annual volume of commerce * * * in the relevant market area; the portion or percentage of that volume held by defendants; the portion or percentage of that volume held by the plaintiffs; and the portion or percentage of that volume affected by any activities of the defendants * * *.
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> * * *
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> "Without the facts and evidence which plaintiff admittedly does not have, a § 2 Sherman case simply cannot, in our opinion, be established."

9. Of the three manufacturers sued or threatened with suit by Agrashell (Block, Gravette, and Hammons), Block continued to produce SGA throughout the periods relevant here, Hammons sales nearly doubled, and Hammons acquired the controlling interest in Gravette in 1966.

See generally Central Savings and Loan Ass'n v. Federal Home Loan Bank Board, supra; Hiland Dairy, Inc. v. Kroger Co., supra; Kansas City Star Co. v. United States, supra; Cornwell Quality Tools Co. v. C.T.S. Co., 446 F.2d 825, 832 (9th Cir. 1971), *cert. denied*, 404 U.S. 1049 (1972); Hibner, *Attempts to Monopolize: A Concept in Search of Analysis*, 33 A.B.A.J. 165, 171-177 (1967).

We are aware that the case of *Lessig v. Tidewater Oil Co.*, 327 F.2d 459 (9th Cir.), *cert. denied*, 377 U.S. 993 (1964), is not in accord with the result we have reached in this case, but we choose not to follow its rationale,[10] especially in view of the fact that the case of *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., supra*, was decided by the Supreme Court subsequent to the *Lessig* case and in view of the decisions of this Court hereinbefore cited.

Other Alleged Errors

Agrashell claims that Hammons' recovery of litigation expenses was barred by principles of res judicata and compulsory counterclaim. Our resolution of the sufficiency of proof with regard to section 2 of the Sherman Act obviates the necessity of resolving this issue with regard to litigation expense damage. Likewise errors allegedly made in instructing the jury with regard to litigation damages need not be discussed.

Agrashell further argues that Hammons' section 1 claims should have been pleaded as a compulsory counterclaim in the first infringement suit filed by Agrashell against Hammons in the Western District of Missouri. However, we think that the instant case is controlled by *Mercoid Corp. v. Mid-Continent Co.*, 320 U.S. 661, 671 (1944), which indicates that cases such

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10. The strength of the *Lessig* rationale in the Ninth Circuit is questionable. *See Bushie v. Stenocord Corp.*, 460 F.2d 116, 121 (9th Cir. 1972); *Cornwell Quality Tools Co. v. C.T.S. Co., supra.*

as this one involve permissive, not compulsory, counterclaims. Furthermore, since the first suit was dismissed because of Agrashell's failure to join an indispensable party, since no judgment on the merits was had, and since Agrashell was explicitly allowed to file a new action, which it elected to do, no injustice has resulted from permitting the filing of the counterclaim in this action.

Agrashell argues that the instructions were in error because of a failure to adequately define Agrashell's agency arrangements. We do not think that if any error occurred that it was prejudicial, and our resolution of the section 1 claim assumes that valid agency relationships existed. Agrashell further argues that it was an abuse of discretion to relieve Hammons of its waiver of jury trial. Due to the complexity of this case and the fact that Hammons changed from patent counsel to antitrust counsel during the varying procedural phases of this case we do not think that such a decision was an abuse of discretion. *See generally*, 9 C. WRIGHT & A. MILLER, FEDERAL PRACTICE AND PROCEDURE § 2334 at 123 (1971).

Agrashell next argues that it was an abuse of discretion to allow Hammons to deviate from a pretrial narrative statement by introducing into evidence the deposition testimony of Cox and Sirotta. Rule 16 of the Federal Rules of Civil Procedure allows for modification of a pretrial order to prevent manifest injustice. The trial judge explicitly indicated that he was acting in the interest of justice and fair play in allowing the deposition testimony, and indicated that the testimony might well have not been available earlier because the parties were in litigation in 1967 and could have been reluctant to speak. We do not think that the decision in this case was an abuse of discretion. *See generally*, 6 C. WRIGHT & A. MILLER, FEDERAL PRACTICE AND PROCEDURE § 1527 at 608 (1971); *Cf. Labbee v. Roadway Express, Inc.*, 469 F.2d 169, 172 (8th Cir. 1972).

Finally, Agrashell argues that it was error to exclude its evidence of settlement offers made to Hammons after the filing of the suit. The trial judge indicated quite clearly that he was afraid the probative value of this evidence was outweighed by the prejudicial impact the evidence might have had on the jury. We think the judge's decision in this respect was carefully considered and not error. Other allegations of error raised in the briefs have been considered, but in our opinion are not valid and do not require comment.

Conclusion

We affirm that part of the judgment awarding Hammons $41,750.00 trebled in the amount of $125,250.00. The remaining judgment, consisting of litigation expense damages, is reversed with directions to dismiss that portion of the case. Attorneys' fees and costs in the prosecution of this case should be redetermined by the district court and substantially reduced to an amount more in keeping with the revised judgment.

A true copy.

Attest:

Clerk, U.S. Court of Appeals, Eighth Circuit.

APPENDIX B

AGREEMENT

THIS AGREEMENT, made and entered into this 1st day of November, 1950, by and between AGRASHELL, INC. incorporated according to the laws of the State of Delaware and having a place of business in the City of Los Angeles, California, hereinafter designated as "Agrashell", and AMERICAN WHEELABRATOR & EQUIPMENT CORPORATION, incorporated according to the laws of the State of Delaware and having a place of business in the City of Mishawaka, Indiana, hereinafter designated as "American",

WITNESSETH THAT:

WHEREAS, Agrashell is engaged in the manufacture and sale of a non-metallic blast grit, composed of crushed nut shells and like materials, which product is known as "Shelblast", and

WHEREAS, American is engaged in the manufacture of centrifugal blast cleaning machines and other types of equipment for cleaning, de-flashing and surface treating of metals, plastics and various other materials, and is vitally interested in and concerned with the matter of having users of such equipment constantly and regularly supplied with adequate amounts of abrasive of the type and kind required and best suited for the successful, efficient, and proper operation of such equipment; and

WHEREAS, American desires to act as del credere factor in the manner and to the extent herein defined for the sale of Shelblast, as herein defined, made by Agrashell, and Agrashell is willing to have American so act;

NOW, THEREFORE for valuable consideration, the receipt of which is hereby acknowledged by each and all of the parties hereto, it is agreed by and between the parties to this agreement as follows:

1. Agrashell hereby appoints American as a del credere factor for Agrashell with authority to sell and service Shelblast, as herein defined, without territorial limitation, for the period and subject to the terms, conditions and provisions hereinafter set forth.

2. American hereby accepts the appointment to act as the del credere factor for Agrashell, with authority as aforesaid and agrees to comply with and perform the terms and conditions to be performed by it, as stated herein.

3. American is hereby authorized to sell Shelblast, manufactured and produced by Agrashell, to all classes of users, except the rubber industry, the dental supply industry and the ornamental jewelry industry, said users employing either dry or wet blast methods for cleaning, de-flashing or surface treatment of metals, plastics and other materials, at prices as provided in paragraph No. 10 hereof.

4. Each sale made by American of the products of Agrashell, herein referred to, shall be made in the name of American, and American agrees, as part of the consideration for the compensation herein provided for, that it will bill and collect for all shipments made by Agrashell, pursuant of orders obtained by American; and American is hereby authorized to do so.

5. Agrashell agrees that it will accept and fulfill all orders for Shelblast obtained by American and transmitted to it by American, and will promptly ship Shelblast in fulfillment of such orders, provided, however, that Agrashell shall be excused from performance of the re-

quirements of this paragraph, to the extent and so long as prevented therefrom by reason of strikes, fires, delay of carriers, acts of God and the public enemy, restrictions imposed by competent governmental authority, or other reasons beyond the control of Agrashell. If, for any of the foregoing reasons Agrashell is unable to fulfill orders, it shall immediately so notify American and American shall then be free temporarily to obtain similar materials for its requirements from other sources.

6. The parties hereto mutually agree that it is expressly contemplated that American will not be required to maintain any inventory upon consignment, or otherwise, of Shelblast manufactured and produced by Agrashell, and that all shipments made by Agrashell, in fulfillment of orders obtained by American, and transmitted by it to Agrashell, shall be shipped directly by Agrashell to the buyer or buyers of such Shelblast from whichever plant or warehouse operated by Agrashell will provide the most advantageous transportation rates for the customer.

7. Agrashell agrees that it will pay to American, as compensation of its services as del credere factor, with respect to sales of Shelblast manufactured and produced by Agrasheli, and for its services in directly or indirectly promoting the sale of and servicing the products of Agrashell and generally for all services to be rendered by American under the terms of this agreement, a sales commission on the sale of Shelblast amounting to Percent of the selling price.

8. Agrashell hereby agrees to grant to American a Percent discount on the selling price of all Shelblast ordered by American for use in its own plant for demonstration, experimental or research purposes.

9. As part of the obligation as a del credere factor, American guarantees the due and prompt payment of all

amounts due and owing on account of all sales affected by it, under the terms of this agreement, not later than the 25th day of the month following the month in which the Shelblast produced by Agrashell is shipped by it in fulfillment of orders submitted by American. Accounting and settlement between the parties hereto shall be made in the following manner:

Currently as shipments are made by Agrashell it will notify American thereof. Such notice shall be in the form of invoices, or other form as the parties hereto may agree upon, which shall show the names of the parties or customers to whom Shelblast has been shipped, the quantity thereof so shipped, the price thereof and the amount of commission on each shipment, and such notices shall be accompanied by shipping documents. Agrashell agrees that on or before the 10th day of each month it will send to American credit memoranda, showing all commissions to which American is entitled, on all orders for Shelblast shipped and invoiced by Agrashell during the preceding month, in accordance with the provisions of paragraph No. 7 hereof.

American agrees that on or before the 25th day of each month, it will account to Agrashell for all amounts due to Agrashell for all Shelblast, invoiced and shipped by Agrashell during the previous month, and at the same time American will pay to Agrashell the amount shown by such account to be owing by American to Agrashell, less any amounts that may then be owing and due American by Agrashell for commissions, in accordance with the provisions of paragraph No. 7 hereof, and as shown by the memoranda previously submitted by Agrashell on or before the 10th day of the same month as above provided.

10. The selling prices of Shelblast manufactured or produced by Agrashell, which American is authorized to

quote, and at which it is authorized to sell to customers, shall in all cases, be such as may, from time to time be announced by Agrashell. Such prices shall not be higher than those quoted or used by Agrashell or any other distributors, and Agrashell expressly agrees that it will not quote or sell to consumers or users at lower prices than which American is authorized to quote, or at which American is permitted to sell Shelblast for Agrashell. Agrashell shall notify American in writing of any changes in prices ten (10) days prior to such date when such prices, as changed, are put into effect. It is definitely understood that Agrashell shall, at all times, have the right and power to establish prices to consumers of the products manufactured by it, herein referred to, which are sold or to be sold by American as a del credere factor under the terms of this agreement.

11. The terms of this agreement shall commence on the date hereof and this agreement shall continue in force between the parties hereto for an initial period of one (1) year from and after this date, and this agreement shall renew itself automatically for successive one (1) year periods, on each yearly anniversary date from and after the date of this agreement, unless cancelled by either Agrashell or American by giving written notice to the other party at least sixty (60) days prior to said anniversary date, stating that it chooses to cancel this agreement, in which case this agreement shall then terminate on the next yearly anniversary date.

12. Should bankruptcy proceedings be begun by or against either of the parties hereto, designated as Agrashell or American, or an assignment made by either for the benefit of creditors, or a receiver, voluntary or involuntary, be appointed for either of the said parties hereto, then and in such event, at the option of the other party, this agreement shall become null and void.

13. Agrashell will protect American and hold it harmless by reason of any suits at law or equity, or for the infringement of patents arising by reason of the sale of Shelblast manufactured by Agrashell.

14. This agreement shall be binding upon the successors of the respective parties hereto, and shall not be assigned by American, except to a person, firm or corporation taking over the business and good will of American in the manufacture and/or sale of Wheelabrators or like machines, and such assignment shall only be made where the assignee assumes all of the obligations of American under the terms of this agreement, and agrees to faithfully perform the same. Otherwise, this agreement shall be assigned only by mutual consent.

15. Upon termination of this agreement, as provided for in paragraph numbered 11 hereof, American immediately will cease accepting orders for Shelblast and will have no further responsibility or obligation as a del credere factor or sales agent of Agrashell.

16. This contract is made in contemplation of the laws of the State of Indiana and shall accordingly be construed in accordance with the laws of that state.

IN TESTIMONY WHEREOF the parties hereto have caused these presents to be signed, sealed and delivered by their duly authorized corporate officers as of the day and year first above written.

Attest:
/s/ John H. Linhardt

Agrashell, Inc.
By /s/ Joseph W. Ayers
President

Attest:
/s/ C. R. Cline

American Wheelabrator & Equipment Corporation
By /s/ (Illegible)
President